
Reports and Testimony: November 1996

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Highlights

Airline Deregulation

Barriers to entry persist in the airline industry. Access to airports, especially for new airlines, is impeded by limits on takeoff and landing slots at Chicago, New York, and Washington, D.C. airports; by long-standing exclusive-use gate leases held by established carriers; and by "perimeter rules" that prohibit flights beyond certain distances at airports in New York and Washington, D.C. Page 17.

Federal and State Prisons

Federal and state prison populations grew by 242 percent between 1980 and 1995, and prison operating costs have grown from \$3.1 billion to \$17.7 billion during the same period. Although this growth results from several factors, "tough-on-crime" enforcement policies played a major role, and forecasts show that the growth rates in costs and prison populations will continue to rise. Page 13.

Nuclear Safety

Despite efforts by the United States and other nations to reduce the risk of accidents and encourage the shutdown of high-risk Soviet-designed nuclear reactors, none of the highest-risk reactors has been closed and one in Armenia has been restarted. Page 2.

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Budget and Spending

Budget Issues: Budgeting for Federal Capital

GAO/AIMD-97-5, Nov. 12 (119 pages).

As federal agencies confront shrinking budgets and increasing demands for better service, the importance of making the most effective fixed-asset acquisitions grows. Fixed assets often require large amounts of resources up front but can yield long-term efficiencies and savings. Prudent capital planning can help agencies make the most of limited resources, while failure to make timely and effective capital acquisitions can result in higher long-term costs. This report reviews how five federal organizations—the Army Corps of Engineers, the Coast Guard, the Interagency Fleet Management System and Public Buildings Service of the General Services Administration, and the U.S. Geological Survey—plan and budget for fixed assets. GAO examines (1) how these organizations believe the current budget process affects their capital acquisitions and (2) whether funding mechanisms exist—used or proposed by the organizations—that might be helpful in planning and budgeting for fixed assets. GAO also examines the response to the Office of Management and Budget's Bulletin 94-08, "Planning and Budgeting for the Acquisition of Fixed Assets."

Energy

Nuclear Safety: Status of U.S. Assistance to Improve the Safety of Soviet-Designed Reactors

GAO/RCED-97-5, Oct. 29 (72 pages).

The goals of the U.S. nuclear assistance program are to reduce the risk of accidents at and to encourage the shutdown of high-risk Soviet-designed nuclear power plants. Despite efforts by the United States and other countries, none of the highest-risk reactors—including some of the type that exploded at Chornobyl—has been closed and one in Armenia has recently been restarted. The Energy Department (DOE) originally expected that this effort would be short- to mid-term in duration. DOE now believes that the program should continue for at least a decade and will cost about \$500 million. However, the agency has yet to develop a plan spelling out how this money will be spent or how DOE will achieve its long-term objectives. In addition, 11 of the 13 safety projects that GAO reviewed have experienced delays. In six cases, U.S. equipment was not delivered to

plants in a timely manner because customs officials in Russia and Ukraine would not release the equipment. Other impediments, including a requirement that some U.S.-supplied safety equipment be tested in Russia, have also contributed to delays. The Pacific Northwest National Laboratory has placed a program representative in Russia to help resolve customs problems. GAO believes that a laboratory representative in Ukraine could be helpful.

Financial Institutions

Financial Derivatives: Actions Taken or Proposed Since May 1994

GAO/GGD/AIMD-97-8, Nov. 1 (165 pages).

In the wake of a major GAO report in 1994 (GAO/GGD-94-133) detailing the risks posed by complex financial transactions known as derivatives, banking regulators and other have taken steps to improve oversight; however, GAO finds that many of its concerns about derivatives remain valid and several of its recommendations have yet to be implemented. This report examines the steps that have been taken since 1994 to (1) strengthen corporate governance and internal controls for derivatives dealers and major end-users, (2) improve regulation of major U.S. derivatives dealers, (3) provide federal oversight of major derivatives dealers that are unregulated affiliates of securities firms and insurance companies, (4) promulgate comprehensive and consistent accounting and disclosure requirements for derivatives, and (5) harmonize regulatory and accounting standards internationally.

Inspectors General: Mandated Studies to Review Costly Bank and Thrift Failures

GAO/GGD-97-4, Nov. 7 (22 pages).

The Inspectors General (IG) at the Federal Reserve, the Federal Deposit Insurance Corporation, and the Treasury issued a total of four material loss review (MLR) reports on banks that failed or whose losses were recognized during the second year of the MLR mandate. GAO found that the four banks failed for similar reasons: rapid growth, excessive loan concentrations in commercial real estate, poor internal controls, and violations of laws and regulations. The reports also cited weaknesses in the bank regulators' oversight of these institutions. GAO is not making any general recommendations to the bank regulators because the relatively

small number of reports issued during the first two years of the mandate—six—does not provide a basis for reaching overall conclusions about the quality of supervisory practices. In GAO's view, the limited basis that these reports provide for making recommendations about overall bank supervision raises questions about the cost-effectiveness of the MLR process as currently structured. Another reason to question the cost-effectiveness of the current process is that some MLR requirements are relatively inflexible and divert IG staff and resources from broader reviews of the quality of bank supervision.

**Bank Oversight Structure:
U.S. and Foreign Experience May Offer Lessons for Modernizing
U.S. Structure**

GAO/GGD-97-23, Nov. 20 (132 pages).

Proposals to consolidate U.S. bank regulatory agencies have raised questions about how other countries structure and carry out their bank regulation and central bank activities. In five recent reports, GAO reviewed how banks are regulated and supervised in Canada, France, Germany, Japan, and the United Kingdom. Although each country's oversight structure and approach reflects a unique history, culture, and banking industry, GAO believes that aspects of these foreign regulatory systems may be useful for Congress as it considers how to modernize bank oversight in the United States. This report draws on the findings from the five reports already mentioned, as well as other GAO work on the U.S. financial regulatory system, to discuss (1) aspects of the five foreign systems GAO reviewed that may be useful for Congress to consider in any future modernization efforts, (2) perceived problems with federal bank oversight in the United States, and (3) principles for modernizing the federal oversight structure for U.S. banks.

**Bank and Thrift Regulation:
Implementation of FDICIA's Prompt Regulatory Action Provisions**

GAO/GGD-97-18, Nov. 21 (72 pages).

The thrift and banking crisis of the 1980s caused losses in the deposit insurance funds estimated at more than \$125 billion. The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), which was enacted to beef up federal oversight of depository institutions, created two new sections in the Federal Deposit Insurance Act—sections 38 and

39—that require regulators to establish a two-part regulatory framework to strengthen safeguards for the deposit insurance funds. The first part focuses on capital levels of depository institutions, and the second focuses on other measures of a financial institution's safety and soundness. This report discusses the progress and results of the federal regulators' implementation of FDICIA's provisions. Specifically, GAO assesses the (1) regulators' implementation of sections 38 and 39 and (2) impact of the two sections on federal oversight of the banking industry.

Financial Management

Testimony

IRS Business Operations: Issues in Setting Priorities and Managing for Results, by Gene L. Dodaro, Assistant Comptroller General for Accounting and Information Management, before the National Commission on Restructuring the Internal Revenue Service. GAO/T-AIMD/GGD-97-22, Nov. 7 (six pages).

This testimony focuses on three issues that the National Commission on Restructuring the Civil Service should consider as part of its review of the Internal Revenue Service's (IRS) current practices and the improvements needed to modernize IRS operations. First, the Commission should evaluate IRS' management operations in light of recently enacted legislation—the Chief Financial Officers Act of 1990, the Government Performance and Results Act of 1993, and the Clinger-Cohen Act of 1996. The Government Performance and Results Act, in particular, is intended to produce a realistic set of business goals and priorities for IRS and a discrete number of performance measures to allow Congress to track the agency's progress and to hold it accountable for obtaining results. Second, the Commission should consider IRS' development of effective implementation strategies. The lack of solid strategies has hampered the realization of IRS' business vision and the correction of long-standing problems. Finally, any effort to modernize IRS operations requires reliable cost and performance information. Without solid data, Congress and the executive branch will not be in a good position to assess IRS' performance, its resource requirements, and the need for remedial actions.

Government Operations

Federal Personnel: Issues on the Need for NOAA's Commissioned Corps

GAO/GGD-97-10, Oct. 31 (20 pages).

The National Oceanic and Atmospheric Administration's (NOAA) commissioned corps is a uniformed service whose officers are covered by a military-like compensation system resembling that of the Commissioned Corps of the Public Health Service. NOAA corps officers carry out various navigational and scientific duties, such as charting and oceanographic research. This report provides information on (1) whether a continuing need exists for the NOAA and Public Health Service corps as uniformed services with military-like pay, allowances, and benefits and (2) what the costs would be if federal civilian employees carried out the corps' functions.

Regulatory Burden: Measurement Challenges and Concerns Raised by Selected Companies

GAO/GGD-97-2, Nov. 18 (128 pages).

Measuring the effects of federal regulation on the economy is often imprecise and controversial. Some analysts claim that federal regulations cost the economy hundreds of billions of dollars annually, while others argue that regulations yield even greater benefits. Working with a small group of companies, GAO sought to investigate the cumulative impact of federal regulations on those businesses. GAO asked the companies to identify which regulations applied to them, the costs and other impacts of those regulations, and the regulations that were most problematic. GAO also gathered information from regulatory agencies. GAO found that comprehensive data on the cost of regulatory compliance were hard to obtain and that any attempt to measure the incremental impact of all federal regulations is extremely difficult.

Health

Public Health: A Health Status Indicator for Targeting Federal Aid to States

GAO/HEHS-97-13, Nov. 13 (26 pages).

Premature mortality is the best single proxy for reflecting differences in the health status of states' populations as measured by both the Healthy People 2000 indicators and the ReliaStar index. GAO's analysis showed that using premature mortality to distribute federal funding for core public health functions would systematically target federal assistance to states on the basis of their populations' rates of mortality, disease incidence, and risk for mortality and morbidity. Several other variables, including the proportion of states' populations that are poor or minorities, were also found to be correlated with health status differences as measured by the Healthy People 2000 indicators and the ReliaStar index. However, including these variables along with premature mortality did not significantly enhance GAO's ability to differentiate the health status of state populations. Moreover, improving the targeting of funds beyond that obtained by using premature mortality alone would require using several additional variables, which would add to the complexity of the allocation formula.

**Private Health Insurance:
Millions Relying on Individual Market Face Cost and Coverage
Trade-Offs**

GAO/HEHS-97-8, Nov. 25 (76 pages).

Most Americans obtain health insurance coverage through their jobs or through government programs like Medicare and Medicaid. About 10.5 billion Americans, however, purchased private health insurance for themselves or their families in 1994. The family farmer, the recent college graduate, the early retiree, and the employee of a company that does not offer health insurance coverage are all examples of persons who are often not covered in a voluntary, employment-based insurance market. Integrating the individual market into health insurance reform proposals has been a thorny issue at both the federal and state level, in part because of the paucity of information on the nature of this market and the characteristics of its participants. This report discusses the (1) size of the individual market, recent trends in it, and the demographic characteristics of its participants; (2) market structure, including how persons access the market, the prices and other characteristics of health plans offered, and the number of individual carriers offering plans; and (3) insurance reforms and other measures states have taken to improve individuals' access to health insurance.

Housing

Public Housing: Partnerships Can Results in Cost Savings and Other Benefits

GAO/RCED-97-11, Oct. 17 (24 pages).

Congress is considering legislation that would give the nation's 3,300 public housing authorities greater flexibility in managing their properties and in operating public and assisted housing for more than 4 million households. This greater discretion is expected to strengthen the long-term viability of public and assisted housing and allow the public housing authorities to better meet the needs of local communities. Before the pending housing reform legislation was introduced, public housing authorities had begun establishing partnerships with public and private sector groups to help stretch limited financial resources. Some partnerships have generated quantifiable cost savings, while others have produced nonmonetary benefits, such as improved social services, that would not have been possible without the partnership. This report describes four types of arrangements that public housing authorities have established and provides the views of public housing authority officials on the advantages of these arrangements.

Multifamily Housing: Effects of HUD's Portfolio Reengineering Proposal

GAO/RCED-97-7, Nov. 1 (116 pages).

About 8,600 privately owned multifamily properties with federally insured mortgages totaling nearly \$18 billion received federal rental subsidies for all or some of their apartments under the Department of Housing and Urban Development's (HUD) Section 8 program. For subsidized apartments, HUD pays the difference between the rent and 30 percent of the household's income. The rents at many properties exceed market levels, resulting in high subsidies. To reduce costs and address other problems, HUD has proposed adjusting the rents to market levels and writing down mortgages as needed to allow the properties to operate at market rents. In essence, HUD's proposal recognizes a reality that has persisted for some time—namely, that many of the properties in the insured Section 8 portfolio are worth far less than their mortgages suggest. This report examines the (1) problems affecting the properties in HUD's insured Section 8 portfolio and HUD's plans for addressing them, (2) results and reasonableness of a study done by Ernst & Young assessing the effects

of HUD's proposal on the properties in the portfolio, and (3) key issues facing Congress as it assesses HUD's proposal.

Income Security

Appealed Disability Claims: Despite SSA's Efforts, It Will Not Reach Backlog Reduction Goal

GAO/HEHS-97-28, Nov. 21 (17 pages).

Americans who are denied benefits under the disability insurance and the supplemental security income programs may appeal to the Social Security Administration's (SSA) Office of Hearings and Appeals. In the last decade, however, the number of disability cases appealed to the Office has swelled by about 140 percent. As a result of the processing delays, claimants often wait more than a year for a final decision on their appeal. Although the Office has reduced its inventory of appealed cases during the past eight months, GAO found that SSA will not reach its goal of reducing its backlog to 375,000 by December 1996. SSA attributes its difficulties to start-up delays, overly optimistic projections of the number of appealed cases that would be processed, and an additional 37,500 appealed cases above the number that SSA expected during fiscal year 1995. Some SSA officials had expressed concern that the agency's aggressive goals to reduce the backlog of appealed cases could result in inappropriate benefit awards for some claimants and increase the allowance rate. SSA's statistics, however, show just the opposite. Since SSA's plan was initiated, the allowance rate has fallen from 75 percent in fiscal year 1994 to 69 percent through the third quarter of fiscal year 1996.

Information Management

Telecommunications: Competition Issues in International Satellite Communications

GAO/RCED-97-1, Oct. 11 (76 pages).

In recent years, several private companies trying to establish international communications satellite systems have raised concerns about competitive disadvantages that inhibit their entry into the market. This report (1) describes the institutional framework for providing international communications satellite services, (2) discusses elements of the framework that may hinder competition, and (3) identifies key options for resolving competitive issues.

**Defense IRM:
Strategy Needed for Logistics Information Technology
Improvement Efforts**

GAO/AIMD-97-6, Nov. 14 (26 pages).

As part of GAO's continuing review of the Defense Department's (DOD) Corporate Information Management initiative, this report summarizes GAO's findings on DOD's efforts during the past four years to improve its information systems in the depot maintenance, materiel management, and transportation business areas. GAO focuses on whether selected standard information systems will allow the Pentagon to meet its business objective of dramatically improving the efficiency and effectiveness of its logistics operations. DOD plans to invest more than \$7.7 billion during the next several years on these standard logistics systems.

**Defense Communications:
Performance Measures Needed to Ensure DISN Program Success**

GAO/AIMD-97-9, Nov. 27 (13 pages).

The Defense Department (DOD) is now acquiring the transmission services and switching technology needed to construct its future telecommunications network known as the Defense Information System Network (DISN). DOD's strategy for the network involves acquiring and implementing DISN transmission and switching services across three regions: the continental United States, the Pacific, and Europe. These long-haul services will, in turn, interconnect DOD's base-level and deployed communications networks. This report reviews the steps DOD has taken in selecting and implementing its acquisition strategy for DISN in the continental United States, which DOD is focusing on first. GAO discusses whether (1) DOD considered other approaches, such as use of an integrated bid, in its selection of an acquisition strategy and (2) the selected acquisition strategy will yield the best value to the government over DISN's life-cycle. GAO also examines the performance measures that DOD managers are using or plan to use to objectively evaluate the outcomes and effectiveness of their DISN implementation efforts.

International Affairs

Food Security: Preparations for the 1996 World Food Summit

GAO/NSIAD-97-44, Nov. 7 (52 pages).

This report analyzes U.S. preparations for the World Food Summit to be held in Rome, Italy, in November 1996. GAO discusses the (1) origin, purpose, and financing of the summit; (2) process used by member countries of the U.N. Food and Agricultural Organization to prepare and negotiate a policy declaration and plan of action for approval by world leaders or their representatives; (3) U.S. approach to the summit; (4) key issues that have arisen in negotiations; and (5) role and views of nongovernmental organizations.

United Nations: Status of Alternative Revenue Raising Proposals

GAO/NSIAD-97-31, Nov. 8 (13 pages).

Despite concerns that the United Nations may seek to impose taxes within the jurisdictions of its member states, the United Nations lacks the independent authority to do so. The U.N. Charter would have to be amended (a process that requires the explicit approval of the United States) to allow such taxation, and the United States has stated that it would veto such an amendment. The United Nations receives most of its financial support from three sources: regular budget assessments, special assessments for peacekeeping missions, and voluntary contributions funded by member governments. Only a small part of U.N. financial support comes from private sources. No formal proposals have been made at the United Nations concerning alternative revenue raising. Some U.N. member states have studied various financing mechanisms, including taxes on member states (such as levies on international air and maritime transport, telecommunications, trade, and international currency transactions). Although the United States has encouraged discussions of alternative financing sources, it has opposed any suggestion that the United Nations be granted authority to impose taxes.

**Foreign Affairs:
Perspectives on Foreign Affairs Programs and Structures**

GAO/NSIAD-97-6, Nov. 8 (29 pages).

This report summarizes the views presented at GAO's 1996 conference on foreign affairs issues. The purpose of the conference was to help focus GAO's work on the full range and complexity of U.S. foreign activities in order to better assist Congress in adjusting U.S. foreign affairs functions and structures to meet post-Cold War realities. Conference participants included current and former government officials and private sector public policy experts representing a range of interests. Topics covered in the conference included the changed environment for foreign policy, the influence and the impact of U.S. programs, the role of multilateral institutions, the world trade interests of the United States, and the structure of the U.S. foreign affairs apparatus.

**Export Controls:
Sensitive Machine Tool Exports to China**

GAO/NSIAD-97-4, Nov. 19 (40 pages).

Following a lengthy review, the Commerce Department in 1994 allowed the McDonnell Douglas Corporation to export to China machine tools for producing commercial aircraft. Some of these machine tools were later diverted to a Chinese facility that built fighter aircraft and cruise missiles for the Chinese army. Commerce's enforcement office, however, did not formally investigate the export control violations until six months after they were reported. The U.S. Customs Service and Commerce are now conducting a criminal investigation under the direction of the Justice Department.

**Export Controls:
Sale of Telecommunications Equipment to China**

GAO/NSIAD-97-5, Nov. 13 (16 pages).

As part of a joint venture involving U.S. and Chinese companies, broadband telecommunications equipment with a host of commercial applications—from video-conferencing to telemedicine—was shipped to China. This equipment is of considerable interest to the Chinese military, which would like to acquire it to upgrade its command and control networks. The creation of a new general license category in April 1994

allowed the export of this equipment to China without a validated license being issued by the Commerce Department. Determining who is a civil end user under the new general license category is the responsibility of the exporting companies. This is particularly difficult in China, however, because of the Chinese military's involvement in various commercial ventures. Information is not readily available to exporters on how much military involvement in a commercial firm constitutes a military end user. As Commerce gains experience under the new general license category, it may want to consider providing additional information or guidance to exporters to help them determine when they should request a government review of an end user.

Justice and Law Enforcement

Federal and State Prisons: Inmate Populations, Costs, and Projection Models

GAO/GGD-97-15, Nov. 25 (38 pages).

From 1980 to 1995, the total federal and state prison population grew at an average annual rate of 8.5 percent. The total prison population rose from about 330,000 inmates in 1980 to about 1.1 million inmates in 1995—an overall increase of 242 percent. Federal and state corrections agencies, as well as forecasting groups like the National Council on Crime and Delinquency, project that the prison population will continue to grow in the future. The size of the prison population is a function of several factors, including crime levels, sentencing laws, and law enforcement policies. Inmate population growth in recent years can be traced in large part to major legislation intended to get tough on criminals, particularly drug offenders. Examples of this new get-tough policy include mandatory minimum sentences and repeat offender provisions. Reflecting the growth in inmate populations, U.S. prison (federal and state) annual operating costs swelled from \$3.1 billion in fiscal year 1980 to about \$17.7 billion in fiscal year 1994. All prison costs (operating and capital costs) totaled about \$163 billion during the 15-year period. The Bureau of Prisons projects that its prison operating costs could total about \$3.6 billion in fiscal year 2000—an increase of about 88 percent over the fiscal year 1994 level. Moreover, the Bureau estimates that it may need as much as \$4 billion to build new federal prisons through fiscal year 2006. This report also discusses the models and methodologies used by federal and state corrections agencies and nongovernmental forecasting organizations to make these projections and examines whether validity or reliability assessments have been done.

**Law Enforcement:
FBI Cost of Freeman Standoff**

GAO/GGD-97-13R, Oct. 22 (10 pages).

The cost of the 81-day standoff between the FBI and the Montana Freeman totaled \$7.5 million. About half of that amount went for the salaries and benefits of FBI agents, which would have been incurred in any event. The remaining costs arose directly from the standoff and included such items as overtime, travel, lease of special vehicles, food, and costs incurred by Montana officers. For example, the FBI spent \$472,000 for scheduled overtime for FBI agents; \$1.6 million for travel, such as transportation and per diem expenses; and \$915,000 for miscellaneous costs, ranging from \$397,000 for the lease and modification of light-armored vehicles to \$341,000 for the rental of equipment such as searchlights and generators.

National Defense

**National Defense Stockpile:
Disposal of Excess Zinc**

GAO/NSIAD-97-30, Nov. 7 (52 pages).

The American Zinc Association contends that the Defense Department's plan to sell excess zinc from the National Defense Stockpile will disrupt the usual markets for this strategic material. GAO found, however, that the government's determination was sound and that the military has policies and procedures in place to avoid unduly disrupting the zinc market. Specifically, it has publicized its policy on the timing of sales, amounts to be sold, and relation of sales prices to market prices; provided plans to the appropriate congressional committees for approval; sold less zinc than it was authorized to sell; and strived to sell at prices close to commercial market prices. Zinc is commonly used for everything from galvanizing to producing the penny. As of March 1996, the military has nearly 300,000 tons of slab zinc valued at \$300 million stored at 15 facilities in nine states.

**Military Retirement:
Possible Changes Merit Further Evaluation**

GAO/NSIAD-97-17, Nov. 15 (53 pages).

Payments to military retirees and their survivors totaled \$29 billion in fiscal year 1996. Various factors, including the end of the Cold War,

defense downsizing, changes in civilian retirement systems, and increasing federal budgetary constraints, have raised questions about whether the military retirement system today best meets the needs of the Pentagon and members of the armed forces. A number of analysts, including several who participated in a roundtable discussion convened by GAO, believe that fundamental changes to the military retirement system could increase its effectiveness or reduce costs by yielding a force of different composition and size than exists today. The suggestions of the GAO panel, which included Defense Department experts and compensation analysts, ranged from earlier vesting of retirement benefits to more sweeping reforms, such as placing military personnel under a system similar to the Federal Employees Retirement System.

**Defense Transportation:
Reengineering the DOD Personal Property Program**

GAO/NSIAD-97-49, Nov. 27 (49 pages).

The Military Traffic Management Command is reengineering the Defense Department's personal property program. Although Congress supports DOD's reengineering efforts, it is concerned that the reengineered program could harm the moving industry, particularly small businesses. As a result, Congress directed that DOD report on small business issues before undertaking a pilot test. Because this report did not satisfactorily address congressional concerns about the impact on small businesses, Congress directed DOD to convene a military/industry working group to develop a mutually agreeable program to test pilot. The working group reached consensus on many issues, including a set of program goals, but it could not agree on the approach to take for the pilot test. Consequently, each side presented a separate proposal. This report reviews the two proposals. Specifically, GAO analyzes the extent to which each proposal met the DOD/industry goals for a reengineered personal property program.

Natural Resources

**Timber Management:
Opportunities to Limit Future Liability for Suspended or Canceled
Timber Sale Contracts**

GAO/RCED-97-14, Oct. 31 (26 pages).

Each year, the Forest Service and the Bureau of Land Management (BLM) award thousands of contracts for the removal of timber from public lands.

Since the early 1990s, the Forest Service and BLM have suspended or canceled timber sale contracts for various reasons. Suspending or canceling timber contracts to protect threatened or endangered species is a relatively new but growing practice. GAO found that BLM has suspended or canceled significantly fewer timber sale contracts than has the Forest Service, and BLM has consistently taken steps to protect itself from the damages that could arise from suspending or canceling contracts to protect threatened or endangered species. In contrast, the Forest Service's actions have not fully protected the agency. As of October 1996, for example, the Forest Service had 73 pending claims with potential damages of about \$61 million; BLM had one pending claim totaling almost \$2.2 million. Since the late 1980s, the Forest Service has been developing new regulations and a new timber sale contract that would limit the government's liability on canceled timber sale contracts and redistribute the risk between agency and purchaser. The Forest Service has yet to finalize either the regulations or the contract.

Tax Policy and Administration

Testimony

Tax Administration: Employment Taxes and Small Business, by Lynda D. Willis, Director of Tax Policy and Administration Issues, before the National Commission on Restructuring the Internal Revenue Service. GAO/T-GGD-97-21, Nov. 8 (26 pages).

This testimony discusses the complexity of tax laws and the compliance burden this complexity places on taxpayers. GAO focuses on employment taxes—federal income tax withholding, federal Social Security and Medicare taxes, federal unemployment tax, and state and local employment taxes. GAO examines the impact that these employment tax laws and regulations have on small businesses hiring their first employees and all employees thereafter. GAO notes that employment tax compliance can be particularly burdensome to employers because of multiple federal, state, and local taxes. Each tax generally requires its own unique set of rules and regulations, and each has its own exceptions to these rules and regulations, making compliance difficult for employers. These complexities were not a product of happenstance but rather reflect the various trade-offs that have been made to address a host of tax policy issues. These trade-offs include considerations as to the type of tax

imposed, the types of compensation to be socially encouraged, and the fiscal requirements of individual government units. Respondents to an earlier GAO survey described characteristics of especially troublesome tax provisions—ambiguity, frequent changes, expiration clauses, and layers of federal and state regulation. Because various employment tax provisions include some or all of these same characteristics, they present a microcosm of the most burdensome aspects of tax regulation reported by those businesses.

Transportation

Airline Deregulation: Barriers to Entry Continue to Limit Competition in Several Key Domestic Markets

GAO/RCED-97-4, Oct. 18 (36 pages).

Barriers to entry persist in the airline industry. Access to airports continues to be hampered by (1) federal limits on takeoff and landing slots at the major airports in Chicago, New York, and Washington; (2) long-term, exclusive-use gate leases; and (3) “perimeter rules” prohibiting flights beyond certain distances at airports in New York and Washington, D.C. New airlines—primarily those started after deregulation—have been affected the most because established carriers hold nearly all of the slots, are usually the beneficiaries of exclusive-use gate leases, and have their hubs located close enough to New York and Washington airports that their operations are not restricted by perimeter rules. These barriers particularly impede the entry of newer airlines into key markets in the East and the upper Midwest because several airports in those areas have leased most of their gates to a single airline. Even where airport access is not a problem, airlines sometimes decline to enter new markets because the strategies of established airlines make it extremely difficult for other carriers to attract traffic. These marketing strategies include bonus commissions paid to travel agents, frequent flier plans, airline ownership of the computer reservation systems used by travel agents, and code-sharing partnerships with commuter carriers. As a result, competition suffers, leading to higher airfares. The effect of these strategies tends to be the greatest—and the fares the highest—in markets where the dominant carrier’s position is protected by operating barriers.

**Airport Privatization:
Issues Related to the Sale or Lease of U.S. Commercial Airports**

GAO/RCED-97-3, Nov. 7 (55 pages).

The possible sale or lease of commercial airports in the United States to private companies has generated considerable interest in recent years. Such cities as New York and Los Angeles have considered privatizing their airports. Proponents claim that privatization would inject much needed capital into the aviation infrastructure, while opponents argue that local governments favor privatization as a way to divert airport revenue intended for developing aviation infrastructure to other municipal purposes, resulting in higher costs for airlines and passengers. This report examines the (1) extent of private sector participation in commercial airports in the United States and foreign countries; (2) incentives and barriers to the sale or the lease of airports; and (3) potential implications for major stakeholders, such as the passengers, the airlines, and the government, should airports be sold or leased.

**Air Traffic Control:
Remote Radar for Grand Junction**

GAO/RCED-97-22, Nov. 19 (12 pages).

GAO agrees with the Federal Aviation Administration's (FAA) determination that remoting the Grand Junction radar signal to a TRACON facility in Denver is the most cost-effective way to handle radar data from the site. However, GAO believes that the projected savings from the remote option are overstated by about \$500,000—\$5.4 billion rather than \$5.9 billion—because FAA overlooked certain telecommunications costs and did not use more realistic staffing scenarios. GAO found no valid concerns about the safety and efficiency of remoting radar data or contracting out a tower's operation. FAA's process for deciding when and where to remote radar signals was generally sound but relatively ad hoc. A formal methodology for making such decisions would have helped the agency to (1) ensure that all relevant factors were properly considered and (2) communicate to all affected communities how it arrived at its decision.

Veterans Affairs

Substance Abuse Treatment: VA Programs Serve Psychologically and Economically Disadvantaged Veterans

GAO/HEHS-97-6, Nov. 5 (15 pages).

About 25 percent of all VA patients discharged from inpatient settings in fiscal year 1995 were diagnosed with alcohol or drug abuse problems. VA estimates that it spent \$2 billion—or about 12 percent of its total health care budget in fiscal year 1995—to treat veterans with substance abuse disorders. The VA health care system is now evaluating what services to offer and where to provide them. VA's new organizational structure, called the Veterans Integrated Service Network, replaces VA's central office and regional structure with 22 networks of hospitals and clinics. VA expects this consolidation and realignment to boost efficiency by trimming management layers, eliminating duplicative medical services, and making better use of available public and private resources. This report provides information on the (1) characteristics of veterans who receive substance abuse treatment, (2) services that VA offers to veterans with substance abuse problems, (3) methods that VA uses to monitor the effectiveness of its substance abuse treatment programs, (4) community services available to veterans who suffer from substance abuse disorders, and (5) implications of changing VA's current methods for delivering substance abuse treatment.

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